Economic Development and Poverty Reduction in Korea: Governing Multifunctional Institutions

Huck-ju Kwon

Seoul National University, Republic of Korea

Ilcheong Yi

Kyushu University, Japan

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Abstract

Combining economic development and poverty reduction is a challenge for developing countries. To find mechanisms for integrating both goals, the authors examine the Republic of Korea's development strategy that transformed one of Asia's poorest nations into an industrialized one, with low levels of poverty. The paper investigates the state-society nexus in which Korea's developmental state has operated and looks at governance for economic development, focusing especially on multifunctioning institutions performing for economic growth and poverty reduction. It also provides strategic suggestions for developing countries on managing effectively within institutional constraints and moving beyond a simple emphasis on good governance.

Keywords: Development, Poverty Reduction, Governance, Institutions, Korea

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Introduction

To fight poverty, it is necessary for developing countries—where a majority of the poor live—to strive for economic development. What makes this task harder is that economic development does not necessarily reduce poverty or income inequality. The challenge here is to combine poverty reduction and economic growth. To tackle this, the authors examine the Republic of Korea's development strategy that transformed one of Asia's poorest nations in the 1950s into an industrialized one, with low poverty and high human resource reserves.

The paper examines, first, the state-society nexus at the macro-level in which Korea's developmental state has operated. This sets the context for subsequent analyses of the institutional dynamics of the Korean state. Second, the authors study the role of government as an agency of development. Instead of emphasising the government's strategic role in economic development, the paper analyses its institutional dynamics, especially the mobilisation of multifunctioning institutions, which enabled Korea to combine economic development and poverty reduction during its period of rapid growth.

This research stems partly from dissatisfaction with the prevalent discourse on the relationship between economic development, poverty reduction and the function of the state. Leading international agencies, such as the World Bank and the United Nations Development Programme, have stressed the importance of good governance for economic development, with the crux of their argument being that good governance is conducive to economic growth. In many developing countries, the effective institutions needed for good governance are often among the key components that are missing (Gough and Wood, 2004). Nevertheless, there are several cases of developing countries that have experienced successful economic growth and poverty reduction before even acquiring the necessary components of good governance. In these cases, the state often plays a pivotal part in organising the main elements of economic growth and poverty reduction. As Gerschenkron (1962: 358) makes clear, what matters in economic development is not the possession of certain prerequisites for this goal, but the strategy (or capacity) to mobilize (or improvise) key institutional devices to meet the challenges during this process.

A large body of literature on the developmental state highlights the state's role in East Asia's development (Johnson, 1999; Woo-Cumings, 1999; Kohli, 2004;), revealing that government plays a strategic part in economic development, helped by a bureaucracy that has sufficient scope to take initiatives and operate effectively. It is a useful rebuttal to the argument that state intervention in economic development results inevitably in failure (Kruger, 1974). Studies of developmental states have, nevertheless, been implicit, if not silent, about poverty reduction. These studies conceal the way in which the Korean developmental state managed to combine economic development and poverty reduction. What were the underlying dynamics that enabled Korea's development experience to incorporate both?

The authors are also partly dissatisfied with the studies on social policy in East Asia in general, and Korea in particular (Ku, 1997; Goodman et al., 1998; Kwon, 1999; Holliday, 2000;). The studies maintain that social policy in East Asia—including Korea—had been used as an effective tool for economic development. The people initially protected by social policy programmes were civil servants and workers employed in strategic industries so that they could be mobilized for economic development (Yi, 2007). Because of these characteristics, social policies tended to have little impact on poverty reduction and income inequality (Kwon, 2001). Given that economic growth does not necessarily lead to poverty reduction, and that this orientation of social policy in Korea would not have reduced the widespread poverty, it warrants careful investigation into how Korea managed to reduce poverty during its phase of rapid economic growth. It remains an elusive task for many fast-growing economies today, such as China and Vietnam, to merge economic growth and poverty reduction. Nevertheless, existing studies on social policy fail to provide convincing explanations.

In developing countries, economic and social institutions are often not well-established or functionally differentiated and operate with limited institutional resources (Grindle, 2004). It is necessary to make strategic choices when new institutions are established according to policy priority. As the literature shows (Wade, 1990; Woo, 1991), Korea's government was a typical example of the developmental state. How did the state perform its task within such institutional constraints? This paper argues that the Korean government succeeded in achieving economic growth and poverty reduction by creating a mechanism linking both social and economic policies. It mobilized institutions whose main tasks were not social protection or poverty reduction and made these institutions multifunctional in order to achieve both first- and second-order goals.

To study these institutional dynamics, it is essential, first, to examine the state-society nexus and look, in particular, at the historical context in which Korea's developmental state was autonomous enough to pursue its aim of economic development. The nation's elite might decide to adopt a developmental state strategy, but social forces, such as the land-owning class, businesses or trade unions, could—in order to protect their own economic interests—frustrate their efforts (Evans, 1995). In some developing countries, social forces which acquired their power base under colonial rule could take on the state while, in others, the state could be the only actor shaping overall public policy direction.

Second, the governance structure and environment, particularly the presence of a competent bureaucracy in which able bureaucrats can operate effectively, need to be considered. A state bureaucracy needs a measure of organisational strength, with full-time, professional, salaried civil servants and a clear hierarchical structure (Weber, 1968). While most developing countries are unlikely to have an ideal-typical model of Weberian bureaucracy, the launching of an ambitious economic development project demands at least a decent corps of bureaucrats. It is not unusual in developing countries to find individuals lacking necessary competence who hold government jobs by virtue of their political connection. A few bureaucrats also moonlight because of their inadequate salaries. In such circumstances, it is difficult to expect a bureaucracy to effectively implement developmental policy.

Third, this paper explores how the government coordinates public institutions to perform multiple—and sometimes contradictory—functions to achieve its goals of economic development and poverty reduction. The government can play a crucial part in setting out a road map for medium- and long-term economic development and providing economic actors with an environment facilitating their involvement in national development. It, therefore, needs to maintain a certain level of cohesion among different economic agencies (Kohli, 2004). There is, on occasion, opposition from institutions to specific public policies that may contradict, or go beyond, their economic and political objectives. It depends on the government's ability to persuade these institutions to fulfil tasks that may fall outside their purview, but are essential for the overall framework of economic development. The ability of the state to coordinate and mobilize institutions for policy objectives is vital to maintaining the coherence of a policy regime, connecting production and welfare systems within it. In subsequent sections, the authors attempt to answer questions raised earlier in regard to these three aspects of the developmental state.

The paper's scope and time-span covers the period largely from 1945 until the early 1980s, when Korea made rapid economic progress. While the paper does not describe this in historical sequence, it focuses on discrete—and relevant—points in time. During this phase, Korea embarked on an industrialisation programme with remarkable success. The paper pays special attention to the government under President Park Chung-hee.

Overview of the Trajectory of Development Strategies

This section provides a brief overview, until the present, of the historical trajectory of development strategies and lays out a policy context for discussion in the sections that follow. Korea's post-liberation governments found it difficult to implement meaningful economic policies because of the industrial vacuum left by Japan in 1945 and the destruction caused by the Korean War. The principal aim of Korea's economic policy was import substitution industrialisation, but its outcome was unimpressive. Despite this, the Syngman Rhee government (1948-1960) laid the crucial foundation for economic development in the 1960s—that of land reform. The nature and outcome of land reform in this period is discussed in the next section.

After the short-lived Chang Myon government (1960-1961), the government of Park Chung-hee (1961-1979) launched a state-led policy of economic development. The Park government shifted economic policy from import substitution industrialisation to export-led development in the mid-1960s, during which the economy recorded impressive growth, simultaneously with a reduction in poverty. From the early 1970s, President Park initiated an economic policy aimed at establishing heavy and chemical industries, while his grip on power—strengthened by constitutional reform—grew increasingly undemocratic.

The Park government's new focus on capital-intensive heavy and chemical industries coincided with a supply of labour from rural areas—reaching its limit in the early 1970s—and the beginning of the United States (US) military withdrawal from Korea. The government provided a range of special favours to the *chaebol*,[1] or large business conglomerates. Social policy programmes, such as health insurance and public pensions, were either contemplated or introduced in the context of heavy and chemical industries.

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[1] A *chaebol* is a large capitalist conglomerate, usually controlled by a single family with interests in a variety of companies, similar to the Japanese *Zaibatsu*.

This strategy faced tough challenges. Large amounts of capital spending, together with a sudden rise in oil prices, led to high inflation and a deterioration in income distribution, while social demand for democratisation increased.

After the sudden downfall of President Park in 1979, another military general took over amid the political turmoil. The government of Chun Doo-hwan (1980-1988) implemented stabilisation policies, enforced structural adjustment in heavy and chemical industries—expanded by the previous government—and attempted to control public spending. President Chun later conceded constitutional reform to the democratisation movement, but was able to see political power shift to his chosen successor after the 1987 election. Trade unions were allowed to organize more freely and to strike; public health insurance was extended to a wider section of the population; and a National Pension Scheme was introduced.

The Kim Young-sam government (1993-1998) tried to transform the Korean economy into a technologically oriented one to compete in a globalising world and enacted a variety of economic liberalisation measures to open Korea to the world market. But the government's attempt to carry through labour market reform—considered a prerequisite for economic transformation—ended in failure in February 1997. At the end of 1997, Korea's economy was hit severely by the Asian financial crisis, which started with the fall of Thailand's currency, the *Baht*. The government of Kim Dae-jung (1998-2003) implemented labour market reform, following an International Monetary Fund conditionality, while strengthening the welfare state under the banner of 'productive welfare'. This led to a policy regime that mixed the liberal orientation of labour market policy with the inclusive trend of social policy. From 2003 to 2008, the government of Roh Moo-hyun maintained continuity in its policy orientation, but placed greater emphasis on a redistributive social policy.

Society and the Developmental State Nexus: Land Reform

Land reform has been a controversial issue in the development debate. Some argue that it is a prerequisite for successful economic development; others, that it inevitably brings political turmoil which disrupts economic growth. A body of literature in development studies has pointed out that successful land reform in the late 1940s in Korea—as well as in Japan and Taiwan—is strongly related to economic development and poverty reduction (for example, World Bank, 2006). The access to even a small amount of land provides an important safety net, a source of self-employment and an alternative insurance to the economic contingencies of life (Dasgupta and Ray, 1987; Deininger and Binswanger, 1999). Landownership also affects economic growth through investment in soils and the establishment of perennials. Owners are likelier to try and improve the soil than tenants and, consequently, contribute to the asset accumulation of landowners.

Despite the positive relationship between equitable landownership and agricultural productivity, there appears to be no direct positive connection in Korea's case between land reform and economic development. Economic development in Korea was not based mainly on the growth of an agricultural sector (Adelman, 1997), and some scholars see land reform as a failure, since it did not create an agricultural sector consisting of middle class farmers (Hwang, 1985).

The importance of land reform in Korea's economic development is due not so much to the development of an agricultural sector as the structural changes in state-society relations that it effected. Land reform occurred in three waves, from 1946 to 1955, creating small, independent farmers who were former tenants of Korean and Japanese landlords under Japanese rule (1910-1945). After the Second World War, the US military government (1945-1948) took a first step, in 1946, towards land reform. It limited peasants' land rent to one-third of the value of the land's annual output, which was a drastic reduction. In 1948, the US military government sold land that belonged to Japan's Oriental Development Company (later, the New Korea Public Company) to tenants at a price equivalent in value to the land's average production for three years. Influenced by socialist land reform in North Korea, the sovereign Korean government—established in 1948—promulgated laws on land reform in 1949 and implemented them from 1949 to 1955. They included three basic principles emphasising equality rather than growth: first, farmland could be owned only by those who actually farmed the land; second, land was to be limited to three *chungbo* (or three hectares); and third, farmers could not contract out their land to others for farming (Sin, 1988). Based on these principles, the government bought land from those who owned more than the limit, or did not farm it themselves, and sold it to others who had been farming it, at a price equivalent to one and a half times the land's average annual production.[2]

[2] Three major explanations exist for the political rationale of land reform. First, it was the peasants who suffered most under Japanese rule, with landlords seen as collaborators—a historical imperative of the time. Second, President Rhee sought to undermine the economic basis of the conservative political elite, many of whom were landlords. Third, land reform was

While some landowners sold their land before land reform was implemented, over 60 per cent of the land was bought by government. Landowners received government bonds, while tenant farmers paid a price equivalent to one and a half times its average annual production, payable over three years (Kim, 1997: 307). After land reform, the land available for tenant farming in 1951 was only 8.1 per cent, while in 1945 it had been 65 per cent. Land reform in Korea was successful in that it created self-owning farmers and sharply reduced inequalities in landownership. For example, in Yongmun village in Chungnam province, the Gini index of landownership dropped from 0.63 of 1943 to 0.49 of 1965 (Cho, 2003: 297), while farm productivity climbed. Families in rural areas, with their own land and higher productivity, could now send their children to school instead of the paddy field (Cho, 2003). It was government policy that made education the biggest item in the budget, next to defence. This resulted in an 'astonishing record' in comparison with other developing countries and reinforced the effect of land reform on education. From 1945 to 1959, the number of students in liberal arts secondary schools with both rural and urban backgrounds increased to 370 per cent; in vocational high schools to 299 per cent; and in higher education to 1,292 per cent. By the late 1950s, literacy among the entire population was almost 90 per cent (USAID, 1959; Cho and Oh, 2003: 283). In brief, land reform not only redistributed land to significantly reduce inequalities in landownership, but also served as a powerful social policy, lessening poverty and increasing the educational level of the rural population. As Cho (2003) argues, a rural population with higher levels of education constituted a huge reservoir of well-educated labour that would play a salient role in the industrialisation of the 1960s.

Land reform also led to the demise of the landowning class as a dominant social force. While land reform was an opportunity for landowners to transform themselves into a new capitalist class—they were paid well for their land—many failed to do so, partly because of their lack of entrepreneurship resulting from Japanese colonial policy which barred Korean businessmen from light and heavy industries. Landlords who sold their land to the government also suffered from hyperinflation during the Korean War which, in turn, significantly reduced the value of government bonds. The Rhee government, too, was unable to create a favourable economic environment for former landlords to

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the United States' counter-revolution against the communist threat of a socialist revolution. The US had recommended land reform to both the Korean and Taiwanese governments (Kim, 1975).

transform themselves into entrepreneurs.[3] The end of the landowning class created a vacuum in the class structure and allowed considerable autonomy to the developmental state to push through with industrialisation.

An Effective Bureaucratic System and Economic Development

To launch a developmental state strategy, it is essential to have an effective bureaucratic system. The military coup d'état by Park Chung-hee was the beginning of the state-led drive for economic development in 1961. Before Park's government, the First and Second Republics were unable to implement any explicit economic development strategies because of the Korean War and political wrangling among the country's elites. Nevertheless, the government of the First Republic under President Rhee carried out successful land reforms in a brief span of time, laying the groundwork for the developmental state to implement its economic programme and demonstrating the effectiveness of the Rhee government in a particular field. Kohli argues that the Korean bureaucracy had inherited both its system and personnel from Japan's colonial government, which was similar to a developmental state (Kohli, 2004). While the Japanese colonial government brought a modern bureaucratic machinery to better exploit Korea, the bureaucratic penetration of society by a central authority had been in place in Korea for several hundred years before Japanese rule. A merit-based bureaucratic system had existed in the country for over 600 years. The principle of merit-based recruitment continued after the establishment of the republic: the strength of the bureaucracy was its openness to all social classes. If successful in the examinations, young talent was recruited from the entire population and not from a particular social class that had political influence. Given that the education system was open to most young people, those from poorer backgrounds could—if they worked hard—compete academically with those who were better off. According to Yoo's survey in 1966, 47.5 per cent of higher ranking officials came from small farming families while 15.5 per cent had fathers who were in the public sector (Yoo, 1966).

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[3] Another factor was business clientelism, formed from the beginning of the Korean Republic. Those who accumulated wealth and established big companies in the 1950s collaborated with political authorities by providing the ruling party with kickbacks in return for favourable treatment. The expansion and survival of Korean business relied entirely on the government, which had the power to distribute enemy (Japanese) property and allocate foreign aid to business (Woo, 1991: 66; Nam, 1995: 360). The symbiotic relationship between government and big enterprises narrowed the space for newcomers to business. Most *chaebol* in the 1970s had accumulated wealth in the 1950s, based not on land but on favourable treatment by the government (Cho, 1997).

During the first 12 years of Korean independence, the country's top policy makers failed to set clear policy goals that the bureaucracy could pursue. Without clear goals and purposeful activity, the bureaucracy could engender rent-seeking behaviour. The United States Agency for International Development (USAID) pointed out that, in the late 1950s, 'a group of responsible young officers with professional training and skill' grew in number in the various government ministries and agencies and found 'pride and satisfaction in their capacities to present objective views to their politically appointed ministers with increasing success' (USAID, 1959: 12). This observation suggests that a small but growing number of bureaucrats became the spearhead of industrialisation in the 1960s and 1970s when well-defined development goals were set and pursued.

The Park government, which came to power in a military coup in 1961, defined economic development and poverty eradication as the top priority of its 'revolution', and took advantage of the bureaucratic system. It brought a sense of purpose, discipline and rationalism to the bureaucracy and created an Economic Planning Board as a 'pilot agency' to lead economic policy. From the start of President Park's government, a few key ministries—linked to macroeconomic management and financial institutions, such as banks—were headed mostly by civilian experts rather than military personnel, while the remainder were led by ex-military generals. It was a typical developmental state, setting up economic growth as a fundamental goal, developing a coherent strategy and rallying resources to achieve it. In 1961, the government reinforced the Civil Service Pension Scheme to mobilize civil servants for its economic development plan (Kwon, 2006).

What made the Park government effective as a developmental state was its discipline over the private sector. At the start of import substitution industrialisation in the early 1960s, private enterprises needed a guarantee, underwritten by government, to secure foreign loans. Through this, and other regulatory mechanisms, the government was able to intervene in market decisions without actually producing goods through state-owned enterprises. The government imposed performance standards on private firms and, once these standards were met, provided various types of subsidies—such as low-interest capital and licenses—to enter a new market. It was, thus, able to pick winners in the market that, subsequently, would become big business.

It was also powerfully related to the structure of the financial market. The Korean financial system was credit-based in the 1960s and 1970s where private firms, especially the *chaebol*, had a high debt-equity ratio that forced them to depend heavily on banks—which were either owned or controlled by the government—rather than on the stock market. Through this credit-based system and big business dependence on banks, the government and, in particular, the Economic Planning Board as a central guidance agency, implemented economic development policy.

Poverty Reduction and Multifunctional Institutions

Poverty reduction and industrialisation

The welfare state in Korea has, arguably, been instrumental in economic development (Goodman et al., 1998; Holliday, 2000; Kwon, 2005). The economic ministry, with a strong say in most government policies, carefully selected and modified welfare programmes for economic development. For example, the Industrial Accident Insurance Scheme was introduced in 1964 as the first compulsory welfare programme in Korea. Starting with large-scale enterprises of over 500 workers, it expanded gradually to include smaller workplaces. It was chosen as Korea's first welfare scheme because the government saw it as an indispensable welfare programme following the launch of its ambitious industrialisation plan (Ministry of Labour, 1981). It was also easier to implement than other alternative programmes as—under the 1953 Labour Standard Act—employers were becoming liable for industrial accidents at work, regardless of their cause. The government, therefore, chose a scheme that needed no additional cost. The medical insurance programme which, in due course, became the National Health Insurance, was introduced in 1977. It had similar financial arrangements where employers and employees contributed to insurance funds, which then paid out to hospitals and clinics for members' health care. Government subvention was limited to supporting administrative costs for an initial period—a role referred to by Kwon (1997) as that of a 'regulator' in financing social policy. In its effort to industrialize, the developmental state exploited the instrumental role of social policy by being a regulator, with the clear aim of economic growth.

Salaried workers with stable jobs were the main beneficiaries of the welfare state, while farmers, the unemployed and urban informal sector workers were excluded until the late 1980s. The family—another component of the welfare regime—was the main provider of social safety. Confucian ethics, which formed the rationale behind this emphasis on the family, remained strong and were actively re-cultivated during this phase of rapid industrialisation. Nevertheless, considering that the poor tended to have poor family members, its impact on poverty reduction was limited.[4]

Korea's most explicit poverty reduction measure, the public assistance programme, was designed within the context of this division of welfare between the public sector and the family. The public assistance programme—introduced in 1961, and reformed in 1965 and 2001—was based on a strict, means-tested and family-support principle. The poverty line was defined in terms of an absolute concept and the poor, who had family members to rely on, were not eligible for the benefits. The government made this division in the welfare structure effective through regulations and laws to support the family. Inheritance taxes of children living with elderly parents were reduced; companies were advised to be partial to applicants with elderly parents; and those caring for elderly parents were exempt from military service (Yi, 2005: 51).

Table 1. Number of people covered by public assistance programme, 1965-1990 (thousands)

		Benefit categories		Percentage of
	First	Second	Third	total population
1965	288	72	3563	13.66
1970	306	63	2116	7.71
1975	375	52	904	3.77
1980	339	47	1500	4.96
1985	282	63	1928	5.52
1990	340	81	1835	5.26

Source: National Statistical Office, 1966, 1990; Suh, 1981.

According to table 1, only a small fraction of those officially identified as poor received income support (first and second categories). The rise in the number of people benefiting from public assistance in 1980 was not due to an increase in poverty but to the official poverty line being set higher than before. Those between 18 and 64 years of age were now eligible for income support for training, food and family allowances if they pursued job training programmes.

[4] Kwon, based on the 1996 national income survey, shows that private transfers—which were larger than public transfers—from family members to the elderly were only less than half of the relative poverty line (Kwon, 2001). For instance, among single elderly households, 72 per cent of the income of those in the poorest decile came from private transfers, but formed only 40 per cent of the relative poverty line (Kwon, 2001: 91).

Despite the stringent public assistance programme, poverty incidence was rapidly reduced. As table 2 shows, it was lowered from 40.9 per cent of all households in 1965 to 23.4 per cent in 1970, 9.8 per cent in 1980 and 7.6 per cent in 1991. Although these figures were produced by the government, based on an absolute concept, the reduction in poverty was remarkable.

Table 2. Incidence of absolute poverty (percentage)

	1965	1970	1976	1980	1991
Urban households	54.9	16.2	18.1	10.4	8.7
Rural households	35.8	27.9	11.7	9.0	2.8
All households	40.9	23.4	14.8	9.8	7.6

Note: The absolute poverty line was 121,000 *won* per month (at 1981 prices) for a five-person household. Source: Kwon, 1998: 34.

How did this effective poverty reduction take place, despite a limited public assistance programme? Kwon contends that Korea's success in reducing poverty was due not to the explicit poverty reduction policies but to the indirect effects of high economic growth (Kwon, 1998). While agreeing with this observation, the authors insist that it was not the result of a trickle-down effect but the consequence of two main factors: first, the social structure that allowed the widest section of the population to participate in mainstream social change to industrialisation; and second, the developmental state's ability to mobilize and coordinate institutions to reduce poverty.

From 1962 to 1967, when the developmental state strategy based on import substitution industrialisation was fully operational, economic growth was impressive and its impact on employment immense. During this time, the gross national product (GNP) increased rapidly and unemployment fell sharply, as table 3 shows. Import substitution industrialization absorbed labour effectively: employment rose by 10 per cent, despite a corresponding 12 per cent rise in the economically active population (Adelman, 1997: 514). From 1967 to 1971, when Korea shifted its strategy from import substitution to export-oriented industrialisation, labour-intensive industries and the growing service sector continued to absorb labour, which led to higher incomes for the working population (see table 4). In particular, poverty in urban areas decreased.

Table 3. Major economic indicators in Korea

	1961	1966	1972	1981	1987	1993
GNP per capita (dollars)	90	125	306	1,741	3,218	7,513
Growth rate	1.6	6.8	16.1	21.3	10.7	15.2
Unemployment rate [a]	17 [b] (7)	15 (6)	10 (4)	10 (4)	5 (3)	4 (3)

[a] Includes both the unemployed and those working less than 18 hours per week. Figures in parentheses indicate full-time unemployment. [b] 1963 figure. Source: Adelman, 1997: 535.

Table 4. Employees by sector (percentage)

	Agriculture & Forestry	Manufacturing & Mining	Service
1966	57.89	10.48	31.27
1971	48.44	14.19	37.37
1978	38.41	23.15	38.44
1985	24.94	24.44	50.62
1990	18.25	27.32	54.42

Source: National Statistical Office, 1966; 1986; 1990.

Effective poverty reduction in the 1960s was mainly because of successful labour-intensive industrialisation led by the developmental state. It is necessary to see this economic development from a structural point of view. The developmental state enjoyed policy autonomy without strong opposition from powerful social forces, especially landowners. The absence of this class is conspicuous when comparing Korea’s developmental experience with other countries, such as Brazil and the Philippines. As discussed earlier, land reform in the late 1940s laid the structural groundwork for the developmental state to work towards economic growth. More important, land reform created self-owning farmers, who then began to educate their children. These children participated in the rapid industrialisation process, and the country’s broad-based economic growth was the key to poverty reduction and relatively equal distribution of income. Land reform, therefore, was an effective social policy programme through which the developmental state could implement a limited, but explicit, poverty reduction policy in the 1960s.

Multifunctional institutions and poverty reduction

The Korean government adopted specific policies to reduce poverty and mobilized economic institutions to perform poverty reduction functions, with measures to eliminate usurious loans in rural areas in 1961. Usury was a widespread economic activity, embedded in a production pattern where farmers lived on subsistence agriculture. Following bad harvests, farmers borrowed money from moneylenders or (occasionally) from other farmers who had relatively more money than themselves, to purchase fertilizer and life's basic necessities—further compounding their financial predicament. Shortly after taking over in 1961, the military government enacted measures to ensure loans were registered and banned from then on. Farmers who recorded debts with high interest could transfer them to agricultural cooperatives—nationwide farmers' organisations—that offered a longer-term grace period and cheaper interest, while lenders received a bond from the cooperatives. This was, in fact, a partial cancellation of farmers' debts and an extension of the debt service period on favourable terms (SCNR, 1963: 1104). Agricultural cooperatives began to play the role of formal rural credit institutions where loans were traded competitively and effectively. They could respond to the income shock of specific crop growers, or regions, with their diversified loan portfolios. They also had the effect of reducing the number of delinquent borrowers, since farmers had to consume more wisely than under the usury system with its lax borrowing procedures. These extraordinary measures were only possible under a military government that had recently taken power, pledging to reduce poverty. It provided a momentum for agricultural cooperatives to be the focal point for rural development and to function as agricultural financing institutions.

Another case in point was the government's rice purchasing system which lasted through the 1970s. The production of rice—the country's main staple—had a tremendous effect on rural and urban living standards and the macro economy in general. Rice accounted for more than a third of the total income of rural households and over 40 per cent of all agricultural products in the 1960s, 1970s and 1980s. The cost of rice was the principal factor affecting overall consumer prices and, subsequently, the government's main concern in its efforts to control inflation (Kim and Kim, 1984: 25-28). The government also established a rice purchasing scheme that endeavoured to control prices and subsidize farmers: within the Economic Planning Board, the Department of Consumer Prices managed a Special Account for the Purchase of Rice, established in 1961.

From 1962 to 1967, the priority of the rice purchasing scheme was to control the price of rice, which had seen large seasonal fluctuations, rather than provide support to farmers. The government's selling price was normally higher than the purchasing price. It paid more attention to supporting farmers in 1968 when it pushed the purchasing price higher than production cost. From the early 1970s, when a new variety of rice with higher productivity was introduced to farmers by the government, the rice purchasing policy benefited both urban and rural households. The new variety was bought for more than its production cost and sold to urban households for less than the purchase price. The conventional variety, with its better quality, was freely traded and consumed by upper income groups. The dual price policy for the new variety of rice, and the free trading of the conventional variety, benefited both urban and—in particular—rural households. The income gap between urban and rural households began to diminish and, briefly in 1974 and 1975, rural household incomes surpassed those of urban ones (Kim and Kim, 1984: 40).

These policies were combined with a nationwide campaign to mobilize human resources and change attitudes. Because of rapid industrialisation in the 1960s, rural household incomes fell behind those of their urban counterparts around 1967. From 1971, the government initiated a rural development programme called *Saemaul Undong* (or New Village Movement). The programme's basic framework was that the government would provide small start-up subventions for projects to develop local communities economically. For example, the government allocated material for constructing village roads, bridges, electrification infrastructure and storage sheds crucial for these communities' economic development. Subsequently, the village people provided free labour for these projects. A study estimates that, for these projects, government subventions accounted for some 20-30 per cent of expenditure, while village people's labour and other contributions constituted another 30-60 per cent, and private donations and bank loans the rest (Kim, 1991). The government spent 2.5 per cent of GNP average per year, which was an immense amount of social spending, given that there was a strict, means-tested public assistance programme in place.

While the *Saemaul Undong* was clearly an effort to boost income levels in rural areas, it also had overtones of political mobilisation to maintain President Park's political power, especially in rural areas where his political support was stronger than in urban ones. President Park changed the constitution to stay in power for life. In 1972, his government announced the Presidential Emergency Measure Number Three which temporarily waived income taxes for low-income households and strengthened regulations on unfair practices by employers in the workplace (Kwon, 1999: 41).

Mobilization of institutions for public health

Public health deals with the health of the population as a whole and differs from medical health care that addresses individual ailments. Public health has centred more on preventative action than on treating illnesses and has focused more on community-based activities than medical practice for individual patients (Winslow, 1920) The implementation of public health, therefore, requires an administrative system that differs from the provision of medical care for individuals. It needs human and material resources and administrative capacities for tackling the often nationwide public health issues.

The developmental state under President Park established a system of public health and mobilized it for both public health and development. The public health sector for the control of communicable and chronic diseases showed substantial growth under the colonial regime and the US military government after 1945, but was weakened following administrative reforms from 1948 to 1960. After the 1961 coup, it became a policy priority to establish a comprehensive public health system. The government placed strong emphasis on its plan to reduce—from 1,033 to zero by 1963—all rural areas without public health facilities and improve health conditions to provide medical care for the poor (SCNR, 1963: 422).

The role of these public health facilities was apparent, since they played a part in combining public health and primary medical care on the one hand and population control—used as a policy tool to reduce poverty—on the other. Like other developing countries, the population that exceeded the level of economic affordability was one of the major reasons for poverty in Korea. For a military government aiming to control population through family planning to reduce dependent family members, public health facilities, with their national networks and medical expertise, could serve as ideal institutions. Consequently, the military government actively established these facilities across the country and used them for both population control and prevention of communicable and chronic diseases.

To maximize institutional synergy, Korean governments constructed new public health facilities from 1974 in 1,340 *myon* (villages), with financial support from agricultural cooperatives. They also established a Health Assistance Programme in 1977 aimed at those benefiting from public assistance, and introduced a law in 1980 allowing medical graduates to serve in public health facilities in lieu of military service (Son, 1999). The latter provided a noticeable boost to villages in terms of medical service delivery, since it was the point where public health facilities were strengthened to provide almost free medical service to rural areas. With this series of policy attempts, health inequality—in terms of access to health care facilities—was greatly reduced.

Human resource development

After the devastation of the Korean War, it seemed that the only abundant resources Korea possessed were human ones. The government made an effort to re-establish elementary schools destroyed during the war. From 1950 to 1960, the number of elementary schools rose from 3,942 to 4,496. All school levels, in both public and private sectors, were enlarged, with the public sector expanding its elementary school level and the private sector its middle and upper school levels. The share of the budget for education grew rapidly from 4.2 per cent in 1954 to 9.4 per cent in 1955, reaching an average of over 17 per cent by the end of the 1970s. The series of government efforts in education paid off: by 1959, the enrolment rate in elementary schools had already reached 96.1 per cent (KEDI, 2005a: 34-35).

Table 5. Enrollment and advancement rates in schools (percentage)

	Elementary school enrollment rate	Advancement rate of elementary school graduates	Advancement rate of middle school graduates	Advancement / employment rate of high school graduates	
				Rate of advancement [a]	Rate of employment [b]
1959	96.1				
1965	97.7	54.3	69.1	32.3	37.5
1975	105.0	77.2	74.7	25.8	39.9
1985	99.9	99.2	90.7	36.4	42.1
1990	101.7	99.8	95.7	33.2	51.0
1995	100.1	99.9	98.5	51.4	69.3
2000	98.7	99.9	99.5	68.0	66.1
2003	99.5	99.9	99.7	79.7	66.3

[a] Rate of advancement = (university entrants / number of graduates) x 100.

[b] Rate of employment = (number of employed / number of graduates – university entrants + number of

army enlistments) x 100. Source: KEDI, 2005a; 2005b.

To industrialize, Korea needed labour with appropriate skills. In the 1950s, there was a lack of specialized vocational schools to impart vocational training, although a few secondary schools existed where vocational education accounted for over 30 per cent of the total teaching hours. Educational reform by the Park government in 1963 was an attempt to reorganize the educational structure for developmental purposes. Instead of the previous governments' rationale of a liberal arts education, President Park's government emphasized the importance of a skills-oriented one.

In vocational schools, education was put under an administrative system separate from liberal arts secondary schools. It emphasized practical skills and was meant to account for over 50 per cent of the total teaching hours (Kang et al., 1998: 30-34). Vocational high schools expanded dramatically between 1973 and 1979, when the government established a policy to promote these schools by increasing opportunities for a university education for graduates, waiving military service, issuing vocational licences and providing scholarships. The response was an increase in applicants to vocational schools (Kim, 1993). The government took the initiative on vocational training by enacting the Vocational Training Act in 1967. With loans from the Asian Development Bank and the International Bank for Reconstruction and Development, the government set up public vocational training schools and granted subsidies of over half the cost to companies providing in-house vocational training. Under the government's programme, those receiving vocational training from public and in-house training facilities rose from 1,502 in 1967 to 11,840 in 1970, and from 3,890 in 15 companies in 1967 to 14,300 in 81 companies in 1971 (Kim, 2002: 88).

Social Insurance and Inequality

Constitutional changes in 1972 returned Korean politics to authoritarianism after the Park government won two presidential elections under the democratic constitution of the Third Republic (Lee, 1997). From the perspective of political economy, the state's developmental strategy reached a critical juncture in terms of transforming Korea's class structure. Labour supply from rural areas reached its limit, and there was a build-up of political and economic pressure from urban workers who had worked hard under difficult conditions (Im, 1987).

The Park government redirected the focus of economic development from labour-intensive industries to capital-intensive heavy and chemical ones, while retaining an export-oriented strategy. Special favours were bestowed by the government on big *chaebol* that could operate the large scale of capital-intensive plants. This strategy inevitably generated huge transfers to the rich, making income and asset distribution more unequal.

In this context, two major social policy programmes—the National Pension Scheme and National Health Insurance—were introduced in the 1970s, favouring workers in large-scale enterprises. The former was initially considered effective for raising domestic capital that could be used to construct heavy and chemical industries. But the programme was postponed due to high inflation induced, at that time, by a sudden rise in oil prices.

National Health Insurance was introduced in 1977, originally in firms with more than 500 workers. The programme was gradually extended to smaller-scale companies in the 1980s and provided health care coverage for most industrial sector employees, while farmers, informal sector workers, the self-employed and unemployed were excluded. In 1978, a separate health fund under National Health Insurance was instituted to cover civil servants and school teachers. National Health Insurance was seen by ordinary citizens and policy experts as a symbol of social inequality in which those with stable jobs in large-scale enterprises and the public sector were protected, while the vulnerable were not. A strict, means-tested public assistance programme, together with Industrial Accident Insurance and National Health Insurance (with selective coverage), formed the basis of the developmental welfare state (Kwon, 2005). However, income distribution deteriorated under capital-intensive industrialisation and the developmental welfare state, as shown in table 6.

Table 6. Trends in the Gini index

	1965	1970	1976	1982	1988	1990	1993
Gini	0.344	0.332	0.391	0.357	0.337	0.323	0.310
Decile ratio	0.463	0.472	0.372	0.437	0.466	0.507	0.520

Decile ratio: the ratio of income of the poorest 40 per cent to the richest 20 per cent. Source: National Statistical Office, social indicators (various years).

The government also mobilized companies for human resource development. Owing to the shift to heavy and chemical industries, it was necessary to build up labour with the requisite skills. Again, companies were initially lukewarm about training workers in these skills as we may anticipate such behaviour from the perspective of a collective action problem. The government introduced a Basic Law on Vocational Training, specifying that companies not providing this would be fined and the income used for public vocational training schemes. Faced with sanctions, companies reconsidered their manpower policy and, rather than pay fines, chose to provide in-house training. This was more efficient and cost-effective than contributing to public vocational training. Under this new institutional logic, in-house training increased dramatically until 1982, when heavy and chemical industries were affected by overcapacity due to a global recession (Yi and Lee, 2005: 150-151). The Basic Law imposed a new set of preferences on companies, with the latter changing their institutional logic to conform to economic growth and human resource development.

Stabilisation and democratisation

The policy regime that sought to promote heavy and chemical industries, while using social policy as an instrument, faltered in the late 1970s. The sudden rise in oil prices hit Korea twice. The country was entirely dependent on imported oil for its industries which, in turn, placed great pressure on the price of Korean products. Within the government—particularly in the Economic Planning Board, sidelined by economists of the Blue House (presidential office) during the heavy and chemical industries development plan—there was strong concern about the structure of the economy under the developmental regime (Haggard, 1994). A gradual credit squeeze, one of the government's policy responses to the economic situation, was particularly hard on small and medium export-oriented companies.

Regarding industrial relations, the reservoir of cheap labour dwindled, and workers began to organize trade unions, demanding higher wages and better working conditions. Industrial disputes—treated as a matter of national security—led to political turmoil. Harsh control, when it works, can quieten trade unions, but when it fails, the issues change easily from labour to politics. This is what happened in April 1979, before the implementation of the structural adjustment programme. The country plunged into political chaos, starting with a stand-off at opposition party headquarters by the Y.H. Trading Company's textile workers, calling on the party to help resolve labour disputes. In the National Assembly, opposition parties gained strength after the 1979 general election.

This escalating economic pressure exploded after President Park's assassination in 1979. Political turmoil ended in another military government, led by Chun Doo-hwan, which pursued vigorous structural adjustment aimed at stabilisation and used a heavy-handed approach towards trade unions (Haggard and Moon, 1990). Monetary and fiscal control became strict, which led to deflation in 1979-1981. President Chun's economic policy appeared successful, helped by favourable international economic conditions, such as the high value of the Japanese yen and low oil prices, giving Korean products a competitive edge in international markets.

Despite this fair economic performance, the Chun government was unable to avoid democratic movements. Throughout the 1980s, political confrontation continued between the authoritarian government and opposition movements for democratisation. Eventually, the constitution was amended to allow for the democratic election of the president. Social policy programmes, such as National Health Insurance and the National Pension Scheme, became politically contentious issues during this period and—in order for political parties to win support—were extended to a wider population.

From the outset, the Chun government pledged to establish a welfare state during its tenure. The first policy introduced in this context sought to strengthen public assistance. As shown in table 1, the number of beneficiaries of this programme increased because the new official poverty line was placed higher than the previous one. Nevertheless, welfare rhetoric was only brief, since the Chun government pursued its stabilisation policy. Along with political confrontation between the government and opposition movements regarding democratisation, the social grievances of those excluded from National Health Insurance emerged as a controversial political issue, with civil society groups urging the government for universal coverage (Kim, 1992). In a run-up to the first competitive presidential election in over 15 years, the governing party's candidate—Chun's handpicked successor—promised to make National Health Insurance universal. This showed that social policy decisions were no longer confined to a handful of top policy makers in government but were part of the political agenda of democratic movements.

The National Pension Scheme conceived by the Chun government was the swansong of authoritarianism, promised by every major candidate in the 1987 election campaign and implemented by a more democratic leadership, making parliament the effective decision-making body in 1988 (Kwon, 1999: 21). Under the National Pension Scheme, implemented that year, all companies with over 10 employees were initially covered. From 1992, coverage was expanded to include companies with over five employees. Funding methods were similar to that of National Health Insurance, with funds contributed by employers and employees. From 1993, when there was concern about a deficit in pensions from 2030 onwards, the government attempted to increase contribution rates. Companies protested against this financial burden, and the government compromised by allowing them to pay 33 per cent of contributions (or 3 % of the standardized average wage) from funds reserved for retirement allowances that employers set aside in accordance with labour law. This system—converting reserved funds to contributions—lasted until 1999 (Yi, 2007: 181-2). From April 1999, the total contribution to the pension fund comprised contributions from employers and employees worth 4.5 per cent of the standardized average wage.

Concluding Remarks: Korean Development Experience and Policy Implications

This paper has highlighted Korea's experience during its rapid economic growth from the 1960s onwards, in which government exercized strong leadership over economic development and successfully reduced poverty. The authors argue that, during this period, the initial success of economic development was firmly at the structural level and related to social mobility created by land reform and subsequent human resource development. Although the government introduced a minimum range of social policy programmes, it was able to reduce poverty effectively in this and succeeding phases by mobilising and coordinating various economic institutions and policies to carry out social policy functions for poverty reduction and social protection. Further, this was not the result of a simple trickle-down effect or separate poverty reduction measures, since economic and rural development policies were integrated to perform tasks of social protection and poverty reduction. Within the context of economic growth and poverty reduction, the government steered, modified institutional tasks and invented development missions of various institutions. It also created developmental goals through suitable incentives and sanctions, and the symbolic system.

With this capacity, the government was able to set priorities for almost any institution, with economic growth leading the value hierarchy of institutions in each field. Under this arrangement, the government could easily coordinate policies across sectors and institutions, such as—among other things—public health facilities, formal education institutes, rice purchasing schemes, and insurances for industrial accidents and national health. In other words, the developmental state in Korea successfully managed to establish a new set of choices for existing institutions to mobilize for development.

Reflecting on the last six decades of developmental state strategy in Korea, it would be fair to say that its performance has been outstanding in comparison with other countries with development experience after the Second World War. Indicators, such as the Gini index, show that Korea had a relatively low level of inequality in the 1960s and early 1970s when developmental characteristics were most apparent. Although subsequent phases reveal an increase in income inequality, it seems acceptable from a comparative point of view. However, Korea's development strategy in the phase leading to the late 1980s excluded social sectors—such as trade unions, farmers and the urban poor—in decision making under the authoritarian regime. The historical specificity of the Korean case does not invalidate the usefulness of its policy implications for governance for economic development and poverty reduction in the context of democracy. Rather, one needs to look further into how democracy and economic development can join forces.

Since the social policy reform after the 1997-1998 economic crisis, Korea witnessed an expansion of the welfare state. Citizenship rights to welfare have slowly but steadily been established. But all is not promising. While the welfare state has become more inclusive, there is growing concern over its financial sustainability. It is necessary to rescale its level of benefits and financial responsibility, particularly its two mature programmes for pension and health insurance. Spending on recently introduced programmes, such as the Minimum Living Standard Guarantee and Employment Insurance, has increased rapidly. How will Korean society set priorities among these programmes to make the welfare state financially sustainable?

In a wider context, Korea's experience can be useful for developing countries in considering their own economic development and poverty reduction strategies. A capable bureaucracy is a sine qua non for such a task. Governments of developing countries should manage their institutions to perform multiple functions and be well-coordinated within institutional and resource constraints. Society should also be open to all sections of the population to participate in—and contribute to—economic development, which has had the most important impact on poverty reduction in Korea so far.

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